

Message Text

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PAGE 01 LONDON 16652 01 OF 03 201652Z

53

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-02 RSC-01 PRS-01 SP-02 SS-15

USIA-15 AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01

CEA-01 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 FEAE-00

INT-05 SAM-01 (ISO) W

----- 127422

R 201641Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6767

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 16652

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING DECEMBER 20

BEGIN SUMMARY: INFLATION WAS THE CENTRAL THEME OF MOST OF

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PAGE 02 LONDON 16652 01 OF 03 201652Z

THE DOMESTIC ECONOMIC NEWS FROM THE UK IN THE WEEK ENDING

DECEMBER 20, THOUGH CONTINUING SIGNS OF RECESSION WERE ALSO EVIDENT. THE RETAIL PRICE INDEX (RPI) FOR NOVEMBER ROSE 1.8 PERCENT, UP OVER 18 PERCENT ON THE YEAR. THE BASIC WEEKLY WAGE RATE INDEX ROSE 3.4 PERCENT, THE SAME MONTH, UP 26.4 PERCENT FOR THE 12-MONTH PERIOD, AND INDICATING FURTHER LARGE INCREASES TO COME IN THE RPI. THE FINAL REVISIONS OF THE PRICE CODE PROMISED IN THE NOVEMBER 12 BUDGET GIVE COMPANIES SLIGHTLY MORE LEEWAY THAN ORIGINALLY ENVISIONED TO RAISE PRICES. BUS AND RAIL FARES AND STEEL PRICES WILL RISE SUBSTANTIALLY EARLY NEXT YEAR, FURTHER IMPETUS TO PRICE INCREASES. TO ROUND OUT THE SLUMPFLATION PICTURE, INDUSTRIAL PRODUCTION FELL IN OCTOBER. PUBLIC SPENDING FIGURES PRESENTED TO PARLIAMENT DURING THE WEEK INDICATED THAT BOTH IN VOLUME AND NOMINAL TERMS, PUBLIC SPENDING EXCEEDED ESTIMATES IN THE FIRST 3 QUARTERS OF 1974. THE POUND STRENGTHENED OVER THE WEEK IN RESPONSE TO SAUDI ASSURANCES THAT THEIR INVESTMENT IN THE UK WOULD CONTINUE. ON A TRADE-WEIGHTED BASIS, THE EFFECTIVE DEPRECIATION OF STERLING NARROWED BY 0.7 PERCENT AFTER LAST WEEK'S 1.4 PERCENT DETERIORATION. THE PRICE OF GOLD ROSE THROUGHOUT MOST OF THE WEEK, CLOSING UP \$10.25 FROM LAST WEEK'S CLOSE. THE NOVEMBER UK TERMS OF TRADE FIGURES SHOWED AN IMPROVEMENT OF 0.7 PERCENT. HOWEVER, IN VOLUME TERMS, THE VOLUME OF UK IMPORTS CONTINUED TO INCREASE WHILE THE VOLUME OF UK EXPORTS CONTINUED TO DECLINE. THE PRICE AND VOLUME INDICES TAKEN TOGETHER, THEREFORE, REFLECT A CONTINUED DETERIORATION OF UK EXPORT COMPETITIVENESS. END SUMMARY

I. DOMESTIC

1. THE RETAIL PRICE INDEX (RPI) ROSE BY ABOUT 1.8 PERCENT IN NOVEMBER, AND HAS NOW INCREASED BY A RECORD 18.3 PERCENT IN THE PAST 12 MONTHS. THE INDEX REGISTERED 115.2 IN NOVEMBER, UP FROM 113.2 (JANUARY 1974 EQUALS 100). MOST ITEMS INCREASED IN PRICE, BUT FOOD, CLOTHING, AND COAL SHOWED RELATIVELY LARGE INCREASES. IN OCTOBER AND NOVEMBER, THE RATE OF PRICE INCREASES HAS ACCELERATED TO DOUBLE THE RATE OF THE PRECEDING TWO MONTHS. THE RPI RISE DID NOT DIRECTLY AFFECT WAGE COSTS THIS TIME AS THE "THRESHOLD" SYSTEM TERMINATED AT THE END OF OCTOBER WHEN UNCLASSIFIED

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PAGE 03 LONDON 16652 01 OF 03 201652Z

STAGE III OF THE PAY CODE FORMALLY TERMINATED. WITH SIZEABLE INCREASES IN THE WHOLESALE PRICE INDEXES IN RECENT MONTHS AS WELL AS PRICE INCREASES BY NATIONALIZED INDUSTRIES STILL IN THE PIPELINE, IT IS LIKELY THAT THE RPI WILL CONTINUE TO INCREASE RAPIDLY.

2. THE BASIC WEEKLY WAGE RATE INDEX ROSE BY 3.4 PERCENT IN NOVEMBER FROM 147.4 TO 152.4 (1972 EQUALS 100). OVER THE

PAST 12 MONTHS, THIS INDEX IS NOW UP BY 26.4 PERCENT, ANOTHER NEW RECORD. ABOUT 12 PERCENT OF THE INCREASE IS ATTRIBUTED TO THE THRESHOLD (ESCALATOR) ARRANGEMENTS IN THE STAGE III PAY CODE.

3. THE FINAL PRICE CODE REVISIONS, PROMISED IN THE NOVEMBER 12 BUDGET TO EASE COMPANIES' CASH/FLOW PROBLEMS, WERE PRESENTED TO PARLIAMENT THIS WEEK. THE REVISED CODE WILL ADD ABOUT 1 BILLION POUNDS TO THE COMPANY SECTOR IN THE FORM OF HIGHER PRICES RATHER THAN THE 800 MILLION POUNDS ORIGINALLY ESTIMATED IN THE BUDGET. THIS INCREMENT COMES MAINLY FROM A MORE GENEROUS RULE ON RELIEF FOR SIGNIFICANTLY FALLING PROFITS. THE TRIGGER LEVEL ALLOWING COMPANIES TO RAISE PRICES WHEN PROFIT MARGINS ARE FALLING IS 70 PERCENT OF REFERENCE LEVEL PROFITS (APRIL 30, 1973 OR

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PAGE 01 LONDON 16652 02 OF 03 201655Z

53

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CEA-01 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 FEAE-00

INT-05 SAM-01 (ISO) W

----- 127425

R 201641Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6768

INFO AMEMBASSY BERN

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UNCLAS SECTION 02 OF 03 LONDON 16652

SEPTEMBER 30, 1972) PER PRODUCT. THE INVESTMENT RELIEF PROVISION ALLOWS PRICE RISES OF 17-1/2 PERCENT OF CAPITAL EXPENDITURE, AND WILL LAST UNTIL MARCH 1976, THE DATE THE PRICE CODE EXPIRES. MOST OTHER PROVISIONS OF THE REVISED PRICE CODE REMAIN ESSENTIALLY AS REPORTED IN LONDON 14865. UNCLASSIFIED

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PAGE 02 LONDON 16652 02 OF 03 201655Z

4. BUS AND RAIL FARES AND STEEL PRICES WILL RISE SOON. THE GOVERNMENT ANNOUNCED ON DECEMBER 19 THAT BRITISH RAIL DEFICIT ON PASSENGER SERVICES FOR 1974 WILL BE ABOUT 341 MILLION POUNDS WHICH MUST BE MADE UP OUT OF GOVERNMENT GENERAL REVENUES. THUS, SUBSTANTIAL INCREASES IN FARES CAN BE EXPECTED; A 12-1/2-15 PERCENT INCREASE IS ALREADY IN THE PIPELINE AND A FURTHER INCREASE OF 25 PERCENT IS POSSIBLE IN THE FIRST HALF OF 1975. BUS FARES WILL ALSO INCREASE IN LINE WITH HIGHER COSTS FOR WAGES AND FUELS. STEEL PRICES BY THE BRITISH STEEL CORPORATION WILL BE RAISED FROM JANUARY 2, 1975, PROBABLY BY ABOUT 12.5 PERCENT. THIS WILL ADD AN ESTIMATED 300 MILLION POUNDS TO INDUSTRIAL COSTS.

5. THE INDEX OF INDUSTRIAL PRODUCTION FELL BY 0.2 PERCENT IN OCTOBER (PROVISIONAL FIGURES--S.A.) FROM 108.1 IN SEPTEMBER TO 107.9 IN OCTOBER (1970 EQUALS 100). IT IS DOWN BY 2 PERCENT OVER A YEAR AGO. THE MANUFACTURING PRODUCTION INDEX FELL BY 0.8 PERCENT FROM 109.4 TO 108.5, AND IS DOWN BY 1.5 PERCENT ON A YEAR AGO. THIS SERIES IS NOT RELIABLE BECAUSE OF DATA COLLECTION QUIRKS (DELIVERIES ARE COUNTED) AND BECAUSE IT IS NOT ADJUSTED FOR STRIKES. THUS, IT IS LIKELY TO BE REVISED. A DOWNWARD TREND IS NOTICEABLE, HOWEVER.

6. EVEN WITH INFLATION ADJUSTMENT, I.E. IN VOLUME TERMS, PUBLIC SPENDING ESTIMATES WERE SHIFTED UPWARDS BY 550 MILLION POUNDS BETWEEN MARCH AND NOVEMBER OF 1974. THIS IS A CLEAR INDICATION THAT PUBLIC SPENDING CONTROL IS LESS THAN PERFECT AND INCREASES IN THE PUBLIC SECTOR DEFICIT

ARE NOT ALL TO BE LAID TO INFLATION. ALL OF THE OVERRUN COMES FROM LOCAL AUTHORITY SPENDING; 330 MILLION POUNDS OF THIS AMOUNT COMES FROM HIGHER-THAN-ANTICIPATED LOCAL AUTHORITY SPENDING ON HOUSING, THE REST FROM HIGHER GENERAL SPENDING BY LOCAL AUTHORITIES.

II. INTERNATIONAL

7. FOLLOWING LAST WEEK'S MAJOR DECLINE, STERLING STRENGTHENED THROUGHOUT MOST OF THE WEEK FOLLOWING CHANCELLOR HEALEY'S RETURN FROM SAUDI ARABIA WITH ASSURANCES FROM THE UNCLASSIFIED

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PAGE 03 LONDON 16652 02 OF 03 201655Z

SAUDI GOVERNMENT THAT THEIR INVESTMENT IN THE UK WOULD CONTINUE, IF NOT INCREASE (SEE LONDON 16432). VIS-A-VIS THE DOLLAR, THE POUND STRENGTHENED FROM LAST THURSDAY'S CLOSING RATE OF \$2.3075 TO \$2.3420 ON WEDNESDAY (DEC. 18) BUT FELL 115 POINTS ON THURSDAY (DEC. 19) TO \$2.3305. ON A TRADE-WEIGHTED BASIS, THE EFFECTIVE DEPRECIATION (MEASURED SINCE THE SMITHSONIAN AGREEMENT) NARROWED FROM LAST THURSDAY'S LEVEL OF 21.9 PERCENT TO 21.2 PERCENT ON THURSDAY (DEC. 18). THE PRICE OF GOLD ROSE THROUGHOUT THE WEEK REACHING A HIGH OF \$189.00 ON TUESDAY (DEC. 17), CLOSING AT \$186.25 ON THURSDAY (DEC. 19), UP \$10.25 FROM LAST THURSDAY'S CLOSE.

8. THE UK TERMS OF TRADE ROSE BY 0.7 POINTS IN NOVEMBER AS THE EXPORT UNIT VALUE INDEX INCREASED BY ABOUT 2 PERCENT WHILE THE IMPORT UNIT VALUE INDEX ROSE BY ONLY 1 PERCENT.

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PAGE 01 LONDON 16652 03 OF 03 201658Z

53

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USIA-15 AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01

CEA-01 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 FEAE-00

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R 201641Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6769

INFO AMEMBASSY BERN

AMEMBASSY BONN

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UNCLAS SECTION 03 OF 03 LONDON 16652

IN VOLUME TERMS, HOWEVER, THE IMPORT VOLUME INDEX ROSE FROM 127.5 TO 132.3 WHILE THE EXPORT VOLUME INDEX FELL FROM 125.6 TO 122.7 (1970 EQUALS 100), REFLECTING, IN PART THE CONTINUING DETERIORATION IN THE COMPETITIVENESS OF UK EXPORTS. WHILE THE IMPROVEMENT IN THE TERMS OF TRADE HAS UNCLASSIFIED

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PAGE 02 LONDON 16652 03 OF 03 201658Z

A SHORT-TERM BENEFICIAL EFFECT ON THE TRADE BALANCE, THE DECREASING VOLUME OF UK EXPORTS COULD BRING ADDITIONAL PRESSURE ON THE EXCHANGE RATE IN THE NEAR FUTURE.

9. THE FORWARD DISCOUNT ON STERLING WIDENED CONSIDERABLY OVER THE WEEK WITH A SPREAD OF 2.75, 5.55, AND 8.75 CENTS FOR 1, 3 AND 6 MONTH FORWARD CONTRACTS RESPECTIVELY ON DECEMBER 18.

	12/12	12/19	CHANGE
1 MONTH	1.75	1.95	UP 0.20
3 MONTHS	3.95	4.85	UP 0.90
6 MONTHS	7.20	8.15	UP 0.95

(ALL FIGURES IN CENTS)

10. EURODOLLAR RATES TENDED TO REMAIN FAIRLY STEADY IN
SPITE OF DOWNWARD PRESSURE ON THE DOLLAR.

	12/12	12/19	CHANGE
1 MONTH	10-1/4	10	DOWN 1/4
3 MONTHS	10-1/4	10-1/8	DOWN 1/8
6 MONTHS	10-1/4	10	DOWN 1/4

11. LOCAL AUTHORITY DEPOSIT RATES MOVED UPWARD DURING MID-
WEEK REPORTEDLY IN RESPONSE TO THE EASING OF STERLING VIS-
A-VIS THE EUROPEAN CURRENCIES WITH SOME REDUCTIONS AS THE
WEEK ENDED.

	12/12	12/19	CHANGE
1 MONTH	12-1/4	11-3/4	DOWN 1/2
3 MONTHS	13-3/8	13-5/16	DOWN 1/16
6 MONTHS	13-5/8	14	UP 3/16

12. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2
PERCENT ON FRIDAY, DECEMBER 20, 1974.

13. ALSO SEE A-1011, CAPITAL TRANSFER TAX.

14. MERRY CHRISTMAS TO ALL. SPIERS

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Message Attributes

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TAGS: ECON, UK
To: STATE
Type: TE
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